

Message Text

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44

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DEPARTMENT PASS COMMERCE

E.O. 11652: N/A

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SUBJ: APPLIED MAGNETICS PORTUGAL-AN APPARENT CASUALTY

REFS: (A) LISBON 3286; (B) LISBON 3170

SUMMARY: IT IS REASONABLY CERTAIN THAT APPLIED
MAGNETICS' HEAD OFFICE IN U.S. HAS DECIDED TO CLOSE
DOWN ITS PORTUGUESE SUBSIDIARY VIA BANKRUPTCY
PROCEDURES. THIS DECISION HAS GENERATED ILL-WILL AT MINISTRY OF
LABOR TOWARDS U.S. AND BAD PUBLICITY FOR THE U.S. AND U.S.
FIRMS GENERALLY, AT SAME TIME, APPLIED MAGNETIC MAY HAVE
INADVERTENTLY PIONEERED, I.E., MAY HAVE HELPED THOSE IN GOP
CONCERNED WITH ECONOMY TO GET BETTER UNDERSTANDING OF VALUE OF
FOREIGN FIRMS AND ENCOURAGED THEM TO TAKE MEASURES TO ASSURE
CONTINUED OPERATION OF THESE FIRMS IN PORTUGAL. IMMEDIATE
VICTIMS OF AM'S DECISION ARE FACTORY WORKERS, WHO APPARENTLY
WILL RECEIVE NO JULY WAGES OR TERMINAL PAYMENTS UNTIL BANK-
RUPTCY HAS PROCEEDED TO POINT WHERE APPLIED MAGNETICS
PHYSICAL ASSETS ARE AUCTIONED OFF. END SUMMARY.

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1. ACCORDING TO A MANAGEMENT-LEVEL EMPLOYEE (PORTUGUESE) OF APPLIED MAGNETICS PORTUGAL (AMP), A SUBSIDIARY OF APPLIED MAGNETICS CALIFORNIA (AMC), AMP IS GOING INTO BANKRUPTCY. ITS PHYSICAL ASSETS WILL BE SOLD AND THE PROCEEDS WILL GO TOWARD MEETING JULY PAYROLLS AND TERMINAL RESPONSIBILITIES TO WORKERS AND CREDITORS.

2. ABOVE SOURCE SAID HE LEARNED OF THIS DEVELOPMENT NOT FROM AMC BUT FROM A LABOR MINISTRY OFFICIAL. LATTER REPORTED RECEIPT OF A TELEGRAM EARLIER THIS WEEK FROM AMC GIVING A COUNTERPROPOSAL TO GOP'S OFFER TO FINANCIAL ASSISTANCE (SEE REF A) AND SAYING THAT IF THE COUNTERPROPOSAL WERE NOT ACCEPTABLE, AMP WOULD PROCEED WITH BANKRUPTCY. THIS OFFICIAL INFORMED SOURCE THAT COUNTERPROPOSAL WAS NOT SATISFACTORY AND THAT GOP WOULD TAKE STEPS TO GUARD FACTORY UNTIL ITS ASSETS CAN BE APPRAISED AND SOLD AT AUCTION.

3. SOURCE, WHO IN NOW WAY FINDS FAULT WITH ANY OF AMC'S ACTIONS OR DECISION, IS NEVERTHELESS CONCERNED ABOUT THE IMMEDIATE PLIGHT OF THE WORKERS, MOST OF WHOM ARE DEPENDENT ON THEIR MONTHLY WAGES. HE SAID THAT THE LABOR MINISTER HAS TOLD THE WORKERS FUNDS WOULD BE MADE AVAILABLE TO TIDE THEM OVER FOR A WHILE, BUT SOURCE DOUBTED THAT MINISTER COULD MAKE THESE WORDS GOOD. (A SMALL GROUP OF WORKERS WERE SEEN IN STREETS AUGUST 7 AND 8 WITH PLACARDS SAYING THAT THEIR AMERICAN MANAGER HAD RUN AWAY WITHOUT PAYING THEIR JULY ASALARIES AND ASKING THE PUBLIC FOR CONTRIBUTIONS TO ENABLE THEM TO BUY FOOD. WE ALSO HAD REPORTS THAT AMP WORKERS MIGHT GATHER AUGUST 8 IN FRONT OF EMBASSY BUT NONE HAVE APPEARED.)

4. COMMENT: A. WHILE WE HAVE NO AUTHORITATIVE WORD ON AMC'S INTENTIONS, LABOR MINISTRY OFFICIAL'S STATEMENT THAT BANKRUPTCY PROCEEDINGS HAVE BEEN DECIDED UPON APPEAR TO BE TRUE. IN THE ABSENCE OF FULL KNOWLEDGE, WE FIND IT DIFFICULT TO ASSESS THE MERITS OF AMC'S BEHAVIOR. ON THE NARROW GROUNDS OF GOP'S OFFER OF FINANCIAL ASSISTANCE, IT DOES SEEM THAT THE INITIAL OFFER WAS INADEQUATE WITH RESPECT TO THE REPAYMENT PERIOD (BY END OF DECEMBER 1974), BUT WE DO NOT KNOW THE TERMS OF AMC'S COUNTERPROPOSAL AND HOW REASONABLE THEY WERE. WITHOUT DOUBT, HOWEVER, THE DECISION TO GO INTO BANKRUPTCY DOES CREATE A LIMITED OFFICIAL USE

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HUMANITARIAN PROBLEM BY DEPRIVING WORKERS FOR THE MOMENT OF WHATEVER SALARIES THEY MAY HAVE EARNED DURING THE LABOR-TROUBLED MONTH OF JULY. UNDER BANKRUPTCY PROCEEDINGS WORKERS SHOULD EVENTUALLY RECEIVE A LARGE PART OF WHAT IS DUE THEM, BUT THIS DOES NOT ANSWER THEIR IMMEDIATE NEEDS. B. NO MATTER WHERE THE MERITS OF THE CASE LIE, THE FACT REMAINS THAT THE LABOR MINISTRY IS UNHAPPY WITH THE RESULT--ESPECIALLY AFTER IT WAS FORTHCOMING ON THE LABOR ASPECTS OF THE CASE (SEE REF B) AND

THE MINISTRY OF FINANCE HAD MADE AN OFFER OF ASSISTANCE. MINISTRY ATTITUDES, ESPECIALLY OF THOSE SUBORDINATE OFFICIALS WHO ARE ALREADY BIASED AGAINST THE U.S. AND/OR MULTINATIONALS, MAY NOW HARDEN. MANAGER OF U.S. ACCOUNTING FIRM OPERATING IN PORTUGAL BELIEVES THAT AMC WOULD HAVE LEFT A BETTER IMPRESSION BEHIND HAD IT MADE AN OPEN AND UNQUIVOCAL DECLARATION THAT ALTHOUGH IT WAS CEASING OPERATIONS HERE, IT WOULD MEET IN FULL ALL OF ITS FINANCIAL OBLIGATIONS TO WORKERS AND CREDITORS. C. ON THE OTHER HAND, WE HAVE REASON TO HOPE THAT SOME GOOD MAY HAVE RESULTED FROM THIS EPISODE. IT HAS BROUGHT HOME TO THOSE OFFICIALS, SUCH AS LABOR MINISTER, WHO ARE MORE CONCERNED WITH GETTING THE ECONOMY MOVING THAN WITH IDEOLOGICAL PROBLEMS, THAT MNC'S DO PROVIDE CONSIDERABLE EMPLOYMENT, THAT WORKERS AS WELL AS MANAGEMENT MUST ADOPT RESPONSIBLE AND REASONABLE ATTITUDES, AND THAT MANAGEMENT MUST IN ITS ADMINISTRATIVE DECISIONS HAVE SOME PROTECTION FROM CAPRICIOUS WORKER DEMANDS. EVIDENCE THAT THE AMP CASE HAS BEEN INSTRUCTIVE TO THE MINISTER OF LABOR IS SUPPLIED BY THE FACT THAT ANOTHER U.S. ELECTRONICS FIRM, WITH PROBLEMS SIMILAR BUT NOT IDENTICAL TO AMP'S, EARLIER THIS WEEK FOUND THE MINISTER RECEPTIVE AND FLEXIBLE IN HELPING THEM REACH WHAT THEY BELIEVE WILL BE SATISFACTORY SOLUTIONS. (IN FACT, AMC ITSELF CONSIDERED THAT THE LABOR MINISTER HAD BEEN HELPFUL. THEIR DECISION TO CLOSE, IF TRUE, APPARENTLY HINGES MORE ON THE INADEQUACY OF THE FINANCIAL ASSISTANCE OFFER FROM THE FINANCE MINISTRY THAN ON LABOR PROBLEMS PER SE. D. IN THE SHORT RUN, AT LEAST, THE AMC DECISION HAS ALSO RECAPED A PUBLIC RELATIONS PROBLEM FOR OTHER U.S. FIRMS AND FOR THE U.S. AND MNC'S IN GENERAL. PUBLIC MEDIA, WHICH HAVE GIVEN EXTENSIVE AND USUALLY CRITICAL COVERAGE TO AMP'S TROUBLES OVER THE PAST THREE MONTHS (ALTHOUGH NO REPORTS OF BANKRUPTCY DECISION HAVE YET SURFACED), HAVE EMPHASIZED THE FIRM'S AMERICAN TIES.

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